



TITLE:

# ECONOMIC THEORY OF PLANNING

AUTHOR(S):

Shibata, Kei

---

CITATION:

Shibata, Kei. ECONOMIC THEORY OF PLANNING. Kyoto University  
Economic Review 1943, 18(4): 19-41

ISSUE DATE:

1943-07

URL:

[https://doi.org/10.11179/ker1926.18.4\\_19](https://doi.org/10.11179/ker1926.18.4_19)

RIGHT:

# Kyoto University

# Economic Review

MEMOIRS OF  
THE DEPARTMENT OF ECONOMICS  
IN  
THE IMPERIAL UNIVERSITY OF KYŌTO

VOLUME XVIII  
1943

---

PUBLISHED BY THE DEPARTMENT  
OF ECONOMICS IN  
THE IMPERIAL UNIVERSITY OF KYOTO

## ECONOMIC THEORY OF PLANNING

By KEI SHIBATA

---

"Economic Theory of Planning" is the title of a laborious work recently produced by Professor Yuzo Yamada. In this book, the author brings the results of his elaborate and exhaustive researches into the recent developments of theoretical economics to bear on his study of the problem of planned economy. It commends itself as an achievement rarely to be met with in the field of economics today, in which the works written are mostly shallow and superficial.

It was in the summer of 1936 that I went to New York from Cambridge in order to see Professor Oscar Lange. At that time Professor Lange showed me his MS. and asked for my opinion of it. This was the MS. of "On the Economic Theory of Socialism," which later won him fame. I then pointed out to him that his theory was, after all, founded on the basic theory of capitalistic economics, and ventured my opinion that the economics of the new age must be something innovatory of this basic theory. He did not concur with my view, however. During the six years that have passed since then, Lange's way of thinking has steadily gained ground until it has developed into one of the most powerful currents of thought in the scientific world. In his book "Economic Theory of Planning" Professor Yamada expounds and develops, in a manner, this current of thought by an elaborate and systematic analysis.

Contact with the foreign scientific worlds being cut off by the War of Greater East Asia, we must do our utmost to develop our political economy by our own efforts, and to this end it is incumbent upon all students of economics to emulate one another in their studies. For this reason I now propose to take up for criticism the above-mentioned book

by my friend, Professor Yamada.

In his "Economic Theory of Planning" Professor Yamada shows the direction of the development of the economic theory based on what he calls the viewpoint of planning. His book consists of three parts. In Part 1, the Professor explains his viewpoint of planning. In Part 2, while explaining why liberal economy is unstable, he surveys the conditions requisite for the formation of the science of economic policy, which is undetachable from political ends, arbitrary by nature. In Part 3, he points out that socialist economy is arbitrary and develops the economic theory of the third form, which is free from instability and arbitrariness, and which lies midway between unstable liberal economy and arbitrary socialistic economy.

Professor Yamada's argument is seemingly very neutral, accurate and precise. It is one which seems to carry much conviction, but a closer study will show that in spite of his own denunciation of any attempt to force ideology on others, the entire book is permeated with an ideology which is, in a sense, the same as that of Professor Lange which I once criticized, and of which Professor Yamada himself is perhaps unaware. In the following chapters, I will illustrate this point at some length.

## 2. THE NATURALISTIC VIEWPOINT AND THE PLANNING VIEWPOINT.

In Part 1 Professor Yamada characterizes the old political economy as "naturalistic" and the political economy which he is going to enunciate as "planning." He declares at the start that "I propose to differentiate between the old political economy and the one which I am going to develop by the distinctive expressions of 'naturalistic' and 'planning.'" Let me, therefore, begin by ascertaining what is really meant by "naturalistic" and "planning." In contrasting the "naturalistic" with the "planning" the Professor contrasts that viewpoint which regards the object of study as unchangeable

artificially with that which regards it as capable of changes by artificial means. He also contrasts the ontological viewpoint which regards the value judgment as based on the essential character of the object of study itself with that viewpoint which discriminates between cognition of fact and the appraisal of value.

The Professor goes on to say that "to take the naturalistic view of the economic order is to recognize control by a law which cannot be altered artificially. To take the planning view of it is, on the other hand, to seek the formation of conditions or a law for artificial operations." Again, he says that "If, in reference to planned economy, one takes the view that liberal economy automatically passes to the stage of planned economy merely through its natural collapse..... one is, after all, obsessed by the naturalistic view of things." He further asserts: "Under the naturalistic point of view, what is sought is an order of things which is beyond human control or the course of history which takes no account of human desires. There is no question of planning where no room is left for the play of artificiality." From these observations we know that the Professor, in reality, contrasts the point of view which believes in the unchangeability of the object of study by artificial means with that which believes in its changeability. Accordingly, he defines researches from the planning view point as "extracting possibility by a proper analysis of the actuality."

The planning viewpoint in this sense is often taken, or we may rather say most frequently taken, in natural science. Natural scientists know the kind of results *ex ante* obtainable by combining such and such things in such and such a way. In criticising those who take the naturalistic viewpoint which the Professor also calls the viewpoint of natural law as contrasted with the planning viewpoint he says: "What they have sought was an unconditional relationship of necessity which is beyond human control. Their attitude is analogous to that of a man who, after finding that water flows downward, has neglected to delve further into the

matter and discover that the phenomenon is due to pressure ..... But unconditional necessity is too metaphysical in its conception."

It is not always in this sense, however, that the Professor contrasts the naturalistic with the planning viewpoint. He sometimes conceives a contrast of an altogether different kind. He says: "By 'naturalistic' is generally meant a thing in its original form..... What is in being in its proper form is called natural." "The naturalistic viewpoint means that according to which a law is established under actual conditions. There we obtain the basis of valuation by recognizing in the actuality the proper form of the thing itself." Here, the Professor regards the contrast between the naturalistic and the planning viewpoints as signifying the contrast between the ontological viewpoint and that of detaching cognition from valuation. Needless to say, the viewpoint of faith in unchangeability is diametrically opposed to the viewpoint of ontology. For, whereas in the former, the actuality is considered unchangeable artificially, in the latter, it is assumed from the beginning that the actuality can be changed by artificial means either to conform with or to run counter to its idealistic and essential character.

Thus the Professor treats contrasts of entirely different kinds as if they were analogous. He does so probably because, while asserting, on the one hand, that it is not liberalism alone which takes the viewpoint of naturalism; because, (even if we substitute collective activity for individual, we may find there the viewpoint of naturalism all the same, so long as it is considered that the *natural form of things* can be recognized," or that "the natural law does not necessarily link itself to individualism and liberalism,") he has in his mind the viewpoint of individualistic liberalism when he talks of the viewpoint of naturalism. My reason for taking it so is this:—As under the viewpoint of liberalism and natural law it is regarded that an ideal world is realized when no artificial action of interference, such as planning and control, is taken by the state, it is considered possible

that artificial action of interference on the part of the state can cause the world to depart from its ideal state, but it is thought that such a state of things is irrational, and that efforts ought to be made—artificial action ought to be taken—to eliminate it. Accordingly, the artificial action of planning and control by the state is deemed a matter hardly deserving of study. It, therefore, follows that planned economy is impossible under the liberalistic, natural-law-view of the world. Artificial acts of interference on the part of the state must also be considered hardly worthy of study, if they are productive of no effects, good or bad. In this case also, the planned economy can claim no serious consideration. The liberalistic natural-law viewpoint and the viewpoint which regards the actuality as unchangeable by any artificial means are the same in that they rule the planned economy out of account. If by the naturalistic viewpoint is meant that of liberalistic natural law, the naturalistic viewpoint and the viewpoint which regards the actuality as unchangeable artificially can be treated as one and the same thing in that planned economy is alike out of the question under them. To put it in a different way, the fact that these two contrasts are treated by Professor Yamada as one and the same thing indicates that by the naturalistic viewpoint he means, after all, the liberalistic natural law viewpoint.

Thus, we know that the Professor repudiates the naturalistic viewpoint because he thinks that the planned economy is impossible thereafter. It does not matter to him whether the imagined impossibility of economic planning is due to the ignorance of the artificial changeability of actuality or to the disregard of actuality as containing full foundation of value-judgement or to any other cause. This will be clear if we remind ourselves, for instance, of the fact that he argues that the crux of the naturalistic viewpoint lies in that it treats perfect rationality based on perfect knowledge as though it were a matter of actual existence when it really does not exist, being merely assumed from the necessity of

forming a theory, and regards the free activity of individual as the ideal on the ground of harmony based on perfect rationality, ruling planning out of account, thus: "The old economic theory is.....distorted or is at least liable to be distorted by its view of the world..... This is due more largely than anything else to the fact that the premise of the perfect knowledge of individuals forms the centre of the old economic theory and that the idea of equilibrium is drawn out of it..... For such a world of complete rationality necessarily represents a natural harmony, and what permits the free activity of individuals in such a state of harmony is exactly what is claimed by liberalism."

The Professor naturally holds it of great consequence that the recent development of theoretical economics has revealed that the premise of perfect knowledge contained in the premise of the so-called perfect rationality is contrary to fact and that it has been disclosed that laissez faire does not lead to harmony. He says: "In the latest economic theory, due note is beginning to be taken of this fact (that the premise of perfect knowledge is contrary to fact)..... The latest economic theory recognizes the active and revolutionary phases in the action of the subject of economy, and departs from the old ideal of optimistic rational harmony. Particularly is it necessary for us to recognize that through the introduction of the theory of anticipation, instead of being concerned simply with perfect rationality, an analysis of individual plans goes further and directs attention to the instability of economic order."

The Professor takes the political economy hitherto prevalent to task on the ground that, taking its stand on the premise of perfect knowledge which is contrary to fact, it has looked upon liberal economy as stable, regarding planning as a matter uncalled for. Deeming liberal economy not to be so stable as has hitherto been imagined by political economy, he attempts to find some other form of economics. Here we see the Professor's position vividly manifest. His contention is, for all practical purposes, that if the premise



of perfect knowledge is permissible, liberal economy is assuredly the most desirable economy because if there is an economy more rational than stable liberal economy premised on perfect knowledge (which we may call rational liberal economy), an economy other than rational liberal economy ought to be probed even though perfect knowledge assumed by liberal political economy were permissible as a matter of fact. That is to say, notwithstanding the fact that the theory of an economy capable of higher productivity than rational liberal economy ought to be developed now as a theory of planned economy, the Professor leaves such a proposition out of account from the beginning, and grants unconsciously that rational liberal economy is the most reasonable and idealistic.

We have thus far ascertained the Professor's fundamental viewpoint as is betrayed by the fact that the contrast between the viewpoint of naturalism and that of planning is regarded by him to be identical with the contrast between the viewpoint of ontology and that of distinguishing cognition from ideal. The Professor, however, denounces most strongly the idea of forcing ideology on others. The very contrast between naturalism and planning or between ontology and its opposition is introduced by him mainly for the purpose of laying stress upon his demonstration of denouncing the idea of forcing ideology on others. He takes the view that value, object, ideal or the view of the world is essentially subjective and arbitrary, and is just the opposite to cognition which is objective and necessary. He thinks that it has no basis in being. He says: "While it (the viewpoint of ontology) attempts to take cognizance of the actuality in the light of its ideal, it is, in reality, seeking the basis of ideal in the actuality. What it considers to be the actuality is, as a matter of fact, the reflection of the ideal. To make matters worse, this ideal is misconstrued as objective." He even pretends to go a step further than Max Weber who makes a most strict distinction between cognition of being and appraisal of value. He states: "We

recognize, with Weber, the difference in character between cognition (theory) and ideal (view of the world), but I want to add another important reason for discrimination. In my opinion, the difference between cognition and ideal is to be sought where, as cognition has formal truth, ideal does not possess it."

Needless to say, where formal truth alone is concerned, there can be no positive science such as economics, though there will surely be formal logic. This fact is duly recognized in some places by the Professor himself, who says that "cognition is, of course, inconceivable apart from substantial truth." Now in what is called cultural, social or historical science, this substantial truth is what concerns historical actuality; it is something human. Now, man is constantly in pursuit of some ideal, and historical actuality is always controlled, in a manner, by an ideal. Historical actuality which is the object of study for cultural science is not, however, what is out-and-out ideal, that is, it is not an ideal itself. A thing can be ideal or proper because the actuality is found to deviate from it. If it is absolutely impossible for the actuality to deviate from it, it can neither be ideal nor proper. And if it departs entirely from ideal or propriety, we can find neither human existence nor historical actuality there. Man is influenced, on the one hand, by things which are neither ideal nor proper, and, on the other, by things ideal and proper. In man and in historical actuality, these two inconsistent forces are unified. Such being the case, it is only proper that we should recognize that historical existence which is the object of study in cultural science contains an ideal in itself.

What we here call an ideal must be the ideal of the object for study. It should not be an ideal arbitrarily given from outside. The Professor says: "Not that the idealistic concept may be left entirely out of account as a matter of cognition. We can fully recognize the process by which an ideal becomes established and realized. Moreover, we can probe the co-relation of many objects and means by which

the ideal is realized." Though there is an indication that the Professor is attempting to grasp historical actuality from outside instead of trying to understand it from inside, he seems to admit the fact that the ideal inherent in the object for study can be the substance of cognition. It is perhaps fair to conclude that he discriminates between the ideal inherent in the object for study and the one which the student has in view. The student must certainly probe existence which is the object for study; he cannot introduce from outside what does not inhere in the object for study. In the case of cultural science, however, the student himself is included in historical actuality which is the object for study; he does not stand outside of it. In this case, therefore, the ideal of the student is no other than the ideal in historical actuality which forms the object for study.

But what is actually conceived as ideal is by no means single. There are inconsistencies and contradictions between ideals variously conceived. It is one of those inconsistencies and contradictions that we find often between the ideal inherent in the object for study and the ideal of the student. What the Professor wants to assert is probably that this inconsistency is due to sentiment and is not amenable to unification. He presumably means to say that, as an ideal is arbitrary by its very nature, there can be no ideal which must be accepted by all. This is perhaps meant when he says: "The distinction between cognition and ideal lies in the fact that whereas the former has formal truth, the latter does not possess it..... While cognition has formal union, ideal is rather characterized by its sentimental combination." But inference is made in establishing an ideal too, and this implies that it must have formal truth. An ideal does not, of course, emerge from mere formal truth. Inference exercised in the establishment of an ideal is conditioned by something over and above mere formal logic. But it is not inference regarding an ideal only which is conditioned by something over and above mere formal logic. So is inference conditioned in the empirical

scientific theory. Anyway, it is an indisputable fact that there exists an inconsistency between those which are alike regarded as ideals. If the whole consisting of conflicts between those with such irreconcilable ideals is nothing but a mere construction by the balance of power between those with ideals of various kinds, instead of being an spiritual whole, we shall have to accept an individualistic, atomistic and mechanic view of society.

However, the existence of irreconcilable rival ideals is observable in the mental life of each individual also. Rivalry for mastery between irreconcilable ideals necessarily presupposes unification of some sort. Accordingly, if there is spiritual rivalry, it must be on the presupposition of spiritual unification of some sort. To take the case of a state, for example. No matter how big a factional rivalry it may contain, the state is not a mere construction by balance of the power of the antagonistic elements; it is an entity with spiritual unity as a state. This spiritual unity must be sought, in the case of a state, in the national character which rules behind the various ideals which are phenomenally irreconcilable with one another and are in mutual conflict, just as it is to be sought, in the case of individuals, in personality which rules behind the various irreconcilable ideals which each individual has in his consciousness. Such spiritual whole of the state does not exist independently of individuals. It is awakened in individuals, it resides in their consciousness and it expresses itself through individuals. Such being the case, it is reflected in individuals in different forms. Spiritual unity assumes a unified ideal. Many ideals which are in rival existence fundamentally depend on such a unified ideal, and such a unified ideal is founded on ideals which are inconsistent with one another. Unity is composed of contradiction, while contradiction presupposes a unity. Such a unity of inconsistent contradictory entities is historical actuality. That is to say, the object for study in cultural science inevitably contains in itself a unity of seemingly irreconcilable ideals.

Cultural scientists must accept such historical actuality as it is, and must endeavour to put forward their own propositions in accordance with the united aim of irreconcilable contradictory ideals. They must make earnest efforts to take an unprejudiced and accurate view of the unity underlying seemingly irreconcilable ideals. If, on the contrary, one ignores this unity of irreconcilable ideals, especially if one does so deliberately, it would be, after all, tantamount to adhering uncritically to the view of some ideal, unconsciously taken, by absolutinizing it as something non-ideal.

By driving an ideal out of the realm of cognition as something arbitrary, Professor Yamada takes the stand that rational liberal economy is the most reasonable one, and, seemingly inconsistent with his view of discriminating between cognition and ideal, he repudiates "real economy" or "real account" as incompatible with the requirements of such reasonableness. He also denounces as arbitrary Prof. Lange's socialistic economy which permits of state interference beyond the guarantee of rationality. Even under the actuality in which perfect knowledge cannot be assumed, he seeks what may render the realization of such rationality possible, so as to bring into being what he terms economy of the third form. And yet he virtually hides the fact that such a stand presupposes an ideal of some special kind. Accordingly, he shuns, for all practical purposes, introspection as to whether such an ideal can be recognized historically and actually. He virtually absolutinizes his ideology as something which is not ideological.

I have so far made clear the stand which Professor Yamada takes up. The stand which he takes up is not, however, calculated to advance planned economy, in the true sense of the term. No economic theory of planning in its true sense can possibly be evolved therefrom. As I shall explain later on, what the Professor calls the economy of the third form is not planned economy in its true sense. The time is, nevertheless, moving on in the direction to planned economy. It is not, therefore, without reason that

the Professor describes his own point of view as that of planning, intentionally using the word planning in a sense different from its original meaning.

At any rate, if the Professor's point of view is such as I have pointed out, it is natural that he should hold that the key to the development of such a point of view is contained in the so-called modern theory—in the theory of equilibrium especially—in political economy. For apart from the question of the premise of perfect knowledge, the modern theory has been evolved from exactly the same point of view as that of Professor Yamada.

### 3. INSTABILITY OF LIBERAL ECONOMY

Now that Professor Yamada's viewpoint has been made clear, let me proceed with an examination of his theory. His theory is dealt with in Parts 2 and 3. Part 2 consists of two chapters—one treating of what the Professor calls individual plans and the other of state plans. I must scrutinize the first chapter, to start with.

The Professor deserts the liberal economy on the reason that it is unstable. This is the reason why he preparatorily in Part I criticised the old economics, which is based on such a premise as dispenses the liberal economy of its inherent instability, as being based on the viewpoint of naturalism. The first chapter which we are now going to investigate has the object of demonstrating this very instability of liberal economy as is stripped of the said premise.

In the chapter under review, the Professor traces the latest theoretical developments as regards the problem of anticipation—which he thinks arises “because our knowledge regarding the given conditions being imperfect, the world in which we live is uncertain.” He then reaches the following conclusion. “(1) Uncertainty is due partly to changes in the given economic conditions but is due alike or more fundamentally to the fact that the economic society is so organized that individuals can have no perfect grasp of the

whole. The more marketable phases production and consumption assume, the more dependent individual actions become on the prices fixed by groups of individuals, and thus individuals actually live in a state of uncertainty as to the prices so fixed. (2) People must take a more or less active attitude toward the prices by anticipating changes in economic or extra-economic conditions, and must consider the advisability of holding certain quantities in stock. (3) It may be assumed that anticipation does not render profit nil even in the case of free competition; it rather oscillates between profit and loss. Thus, as the result of the introduction of the factor of anticipation, the economic order becomes subject to constant changes."

Concluding liberal economy to be unstable in this way, the Professor tries to justify state planning on the ground of this instability of liberal economy. He says: "In the event of the instability of the economic order being established from an analysis of anticipatory individual plans, the problem of state planning comes to the front as an important issue." For he thinks that "should a harmonious system be formed spontaneously among individual plans, there would probably be no room for the intrusion of state planning."

What strikes us in connection with the above-mentioned view of Professor Yamada is, first, that he contends that the instability of liberal economy arises from the introduction of the factor of anticipation and, secondly, that he confounds instability with changeability.

At the start of Part 3, the Professor, in his general survey of the history of the theories of controlled economy, refers to works which deal with the inevitability of planned economy, pointing out that "all of these attempt to probe the inevitable changes from freedom to monopoly and control of the economic organization." Again, in enunciating the theory of the third form, he says: "The formation of a monopoly of interests.....leads to the loss of equilibrium. For the restoration of equilibrium between monopolistic bodies, the form of planned monopoly becomes imperative."

Thus, the Professor attributes in some places, the collapse of liberal economy to the infiltration of the tendency of monopoly, a special circumstance at a special stage of its development, and yet he ignores this point when he comes regularly to tackle this subject, taking up instead the general circumstance of imperfect knowledge which has always been attendant on liberal economy. Here, again, we see a sidelight thrown on the character of his theory.

The Professor confounds on the other hand the so-called instability with changeability. In this perhaps he has followed the general current of thought, but it must be remembered that it was not because it has become "very changeable" but because business depression and unemployment have become perennial that liberal economy was rendered unworkable. I have had occasion to discuss this phase of the problem so frequently that I shall here desist from any recapitulation of this point.

One must, at first be struck by the above mentioned two points in Professor Yamada's stand-point of theory. What is most important must, however, be to point out clearly the fact that the stand point of the Professor, who leaves the necessity of developing such an economic theory as will assure productivity higher than in rational liberal economy altogether out of consideration and assumes that rational liberal economy is one which is most rational and idealistic, is betrayed most cardinally in this point.

#### 4. ARBITRARINESS OF SOCIALISTIC ECONOMY

Professor Yamada takes exception to socialistic economy on the score that it is of an arbitrary nature. In Part 1, he pointed to the arbitrariness of ideals and rejected the so-called natural-law point of view which presupposes the establishment of an objective and proper ideal. In Part 2 Chapter 2, he examines the views of Wilbrandt and Pigou who evidently believe that scientists can, in a manner, fix upon the concrete ideal of state plans, and while pointing



out that such views are obsessed by arbitrary ideals, he finally concurs in the point of view of Myrdal in his analysis of attitude and in that of Morgenstern in his study of the interdependence of economic effects. Here we note researches worthy of note, but as they are, after all, what has already been examined in regard to the contrast between the viewpoint of natural law and that of planning, I shall proceed immediately to Part 3.

Part 3 consists of three chapters. In Chapter 1, the Professor makes a general survey of theories regarding controlled economy with special reference to the development of the so-called theory of economic calculation. In Chapter 2, he introduces and examines Prof. Lange's theory of socialistic economic calculation and that of Barone, which may be said to be the forerunner of Prof. Lange's theory.

Prof. Lange's theory of socialistic economic calculation is somewhat different from that of Barone, but as the points of difference are insignificant, I shall confine attention to Professor Yamada's view on Prof. Lange's theory.

Under the socialistic economy envisaged by Prof. Lange's theory of economic calculation, the consumer has freedom in the choice of consumption, while the producer has the freedom of deciding the scale and the method of production, as a matter of principle. Prices are kept in being what serve as the index of choice. Accordingly, in housekeeping expenditure is determined, as is done under capitalistic economy, according to the law of the equality of marginal utility. As for the producer, he is to determine the scope and method of production according to the so-called law of the minimum expenditure (marginal productivity theory) as in the case where production is undertaken under complete competition with the acquisition of the maximum profit as its guiding objective. In other respects, however, conditions unlike those under capitalistic economy prevail. It is so laid down that all production should be under the direction and control of a Central Planning Board. Both land and capital are nationalized and the profits accruing therefrom

are to be divided within the nation as social dividends. As to prices, all except those relative to consumers' goods and labor are to be fixed officially as accounting prices. The accounting prices in this case are provisionally fixed at random points where it is supposed the demand and supply balance. In the light of the reaction of these prices on the relation of demand and supply, such revisions as are deemed necessary are carried out so that they may be brought as near to the prices of equilibrium as possible. Thus the accounting prices are fixed through trial and error.

Professor Yamada first introduces Prof. Hayek's comment on Prof. Lange's theory and then describes Bilimovitch's criticism of it with his own comment on it. In the former case, the Professor devotes his attention to an examination of Prof. Lange's way of theorizing, rather than making an inquiry into his socialistic economy itself. I shall, therefore, sidetrack this point and proceed to the consideration of the latter point.

Bilimovitch's comment on Prof. Lange's theory, as Professor Yamada summarizes it, is as follows:— "Firstly, the state can fix the rate of dividend in regard to the income subsidy (social dividend) arbitrarily. We must thus admit that there is room for the intrusion of arbitrariness. Secondly, there is room for the intrusion of arbitrariness in regard to interest also. That is, if there is no actual market with regard to the loan of funds, the demand and supply must necessarily balance under the rate of interest fixed by the state, no matter how high. Thirdly, the state can fix the price either in such a way as to accord with the cost of production or at a point higher, in some cases, and lower, in other cases, than the cost of production, if it so wills. Furthermore, it is free to regard either the average cost of production or the marginal cost of production as the cost of production. Here, again, room is afforded for the admission of arbitrariness."

It is not quite clear what is meant by arbitrariness, but it is at least obvious that it does not mean mere wayward-

ness. For people do not talk of arbitrariness under liberal economy where each individual pursues his profit as he pleases in relations of exchange, as he is believed to do. Nor is the action of the state, no matter of what nature, regarded as arbitrary, if its interposition is through relations of exchange. If so, it appears that no action is arbitrary which is taken through relations of exchange. Even where the state interposes without regard to relations of exchange, people do not talk of arbitrariness, if its interposition is calculated to promote rational liberal economy or, if, otherwise, the departure from rational liberal economy is due to a mere financial circumstance—though this is a very vague concept. It may thus be concluded that by arbitrariness is meant such interposition of the state without regard to relations of exchange as tends to obstruct the realization of the so-called rational liberal economy to an extent beyond what can be justified by financial necessity. If this interpretation is permissible, the concept of arbitrariness in question necessarily presupposes a specific standpoint which accords perfectly with that of the Professor to which I have referred already.

Thus, Professor Yamada accepts Bilimovitch's comment on Prof. Lange's theory and holds that "What we can arrive at must be the arbitrariness of socialistic economy."

Bilimovitch who criticizes arbitrariness in Prof. Lange's theory, seeking for a form which is neither liberal nor socialistic, concludes: "A form of compromise is the best of all. I mean a compound and dualistic form. That is to say, it is an amalgam of personal freedom and social control." And yet he discerns a tragic phase in the third form of this kind, and says that "as is the case with cross-bred forms of all kinds, it is unstable and has a tendency to turn one pure-blooded form or the other." Denouncing the lack of thoroughness in Bilimovitch's view in this regard, the Professor states that he finds it difficult to support or comprehend his attitude. He courageously advocates the third form and declares that "the conclusion I reached after con-

sidering various rival economic forms in terms of planning, was that we should bring forth a sort of economic form, free from the instability of liberal economy and the arbitrariness of socialistic economy."

## 5. THE THIRD FORM.

In the last chapter of Part 3, Professor Yamada essays to enunciate the economic theory of the third form which he cherishes.

The economy of the third form is founded on the synthesis of monopolistic bodies. It is, so to speak, Prof. Lange's socialistic economy stripped of the assumption of the nationalization of land and capital goods. The Professor defines it as based on the one hand on the restraint of speculation and on the other on cooperative plans. That is, he says that his theory is based on the formula that each individual is required to take a passive attitude toward prices and that those in business are given participation in the formulation of plans. So far as the theory evolved along these lines is concerned, however, it may be regarded as being the same as liberal economy except where it is so laid down that under it officially-fixed prices prevail instead of market prices.

In developing the economic theory of the third form, therefore, special importance is of necessity attached to the theory of fixing prices officially.

Prof. Mises once drew a line of distinction between the "original official prices" which are fixed irrespective of the prices formed in the "unshackled market" and the "controlling official prices," fixed for the purpose of safeguarding the prices formed in the "unshackled market," and stated that while the latter is to produce no serious effects on the market, the former tends to produce the effects unexpected by the state. This, he said, drives a state which desires to avoid such a contingency to extend gradually its degree of interference in the mechanism of the market until it finally

deprives captains of industry and capitalists of the right of disposing of means of production. Commenting on this, the Professor declares that "if Prof. Mises regards the pressure exerted by the State demand on civilian demand as shackles when he speaks of unshackled market, his theory may be taken to contain the same point of view as the naturalistic view of liberalists." That is, concluding that Prof. Mises regards as the "original official prices" tending inevitably toward general state control the prices officially fixed at such points as will be fixed at in the market containing the state demand, the Professor opposes his theory on the ground that such official prices do not lead inevitably to general state control. Apart from the question of whether it is permissible to construe Prof. Mises' theory in the way he does, we can see in the Professor's criticism of Prof. Mises' theory his point of view that since the price is stable which is fixed at a point where it will be fixed when, in the market containing the state demand, the parties concerned in exchange adopt a passive attitude toward prices, it is only proper that the prices should be officially fixed at such a point.

It will thus be seen that the official prices which the Professor has in view are such prices as will be fixed when the parties to exchange adopt a passive attitude toward prices in the market containing the state demand. Accordingly, concerning official prices, he contends: "The state does not propose to fix them rigidly, for any such attempt will simply cause disturbance to the market. The state must study the reaction of the prices officially fixed tentatively on the demand and supply, and must revise these prices properly in the light of these reactions, with a view to finding the equilibrium between demand and supply. In short, the official prices ought to be organized in such a way as to attain the equilibrium by artificial means through the process of trial and error." For he says: "The price ought to be regarded as the index of choice. One must choose among many different kinds of consumers' goods or

producers' goods, and consequently there must needs be an intermediary index of choice. The price constitutes this index."

In his discussion of cases where the maximum prices are officially fixed, the Professor refers to the "equal distribution of necessities of life" and the "supply of raw materials according to the proven efficiency of factory equipment and amount of output," thereby introducing factors which militate against the practice of the free choice of things with the given prices as the index of selection. Not that he takes up this phase of the problem in all seriousness. He says: "It is, of course, conceivable that under controlled demand and supply, the form of individual equilibrium will be skewed. But such a state is unstable in itself and it argues the need for the revision of either the official price or the quantity of supply. It is rather in regard to the active attitude of individuals such as the speculative spirit, and not in respect of their passive attitude in exchange that individual activities are considered repressed." While the Professor once argues that "if it is permissible to contend that the demand for a *fair* distribution of goods may be disregarded, it will hardly be worth while to study the socialistic organization at all," thus leading the reader to anticipate in this way that after his study of Prof. Lange's socialistic economy, the Professor will surely take the demand for a *fair* distribution of goods into due consideration, he leaves this problem severely alone in his enunciation of the theory of the economy of the third form.

If the economy of the third form is such as has been described, it may be said to be one comparatively stable or one which is, generally speaking, free from so-called arbitrariness. But it may be doubted whether it can rightly be called planned economy. So long as it is so laid down that in housekeeping as well as in enterprises they are free to take or leave anything with the prices as the index of choice, the planned operation of national economy will be impossible except in formal meaning. It is hardly correct to call the

national economy which is not, in effect, operated according to plan by the name of planned economy. The untenableness of the Professor's stand seems to be manifest where he ventures to call it planned economy when the problem of planned economy is taking an aspects of increasing importance.

I have so far made it clear that Professor Yamada's economy of the third form is practically the same as liberal economy, the sole point of difference being that under it rule official prices instead of market prices, and that accordingly it is, to all intents and purposes, Prof. Lange's theory in an amended form, that is, his socialistic economy stripped of its assumption of the nationalization of land and capital goods. Concerning Prof. Lange's theory, we have Prof. Hayek's criticism besides Bilimovitch's. Prof. Hayek regards Prof. Lange's theory as one which assumes the structure of static competition. According to Prof. Yamada, Prof. Hayek's criticism is directed against the following points: "(1) To fix prices rigidly for a certain specific period according to the classification of grades made of commodities vitiates the role of prices as the index of production or consumption. (2) The minimum cost of production cannot be realized by denying competition in prices and repudiating the functions of enterprizers to take risks. (3) Changes in demand and supply cannot be met opportunely, nor can responsibility be taken for failure, if speculation is not allowed as to future movement of prices. (4) Plans formulated by controllers are not necessarily superior to those of liberal enterprizers. Nor is it likely that funds can be accommodated effectually to the managers of business with no property credit."

The Professor, concurring in Prof. Hayek's criticism of Prof. Lange's theory, says: "Prof. Hayek's criticism hits the right nail on the head. It is impossible to say that Lange's system takes such dynamic factors into due consideration." Accordingly, he considers that Lange's theory must be shorn of its static assumption. The static character of Lange's theory to which Prof. Hayek takes exception is, as can be

gathered from what is summarized in the above-mentioned (1) to (3), what inevitably accompanies the official price system. Although he supports Hayek's criticism, the Professor, who approves of the official price system, looks on the static character in question in a light somewhat different from what can be gathered from the summary of the criticism given above. Thinking that Lange's static error exists where he believes that even under liberal economy, a passive attitude rules in regard to prices, the Professor states: - "Lange seems to think that even under free competition such a passive attitude is assumed..... But this should be regarded as the premise of static free competition. Prof. Hayek's view that competitive solution in the theory of economic calculation is static is understandable in this sense." He also thinks it to exist where Prof. Lange holds that the demand and supply curves remain unaffected by remedial changes carried out in actual prices through the process of trial and error. It is the static character of Prof. Lange's theory in this last sense that the Professor tries to amend, in view of Prof. Hayek's criticism, in enunciating that theory.

The Professor maintains: "It is very unreasonable to assume that the demand and supply curves remain absolutely unaffected while prices are actually being changed frequently around the point of equilibrium. Of course, it is assumed that there is no change in external factors given. So long, however, as the buyer and the seller gain or lose under each of the actual prices formed before the price of equilibrium is attained, and so long as such prices are bound to produce effects on the purchase of other goods, it will constitute the internal cause for changing the demand and supply curves." For the application of the theory of trial and error, he revises the old theory and introduces the concept of demand and supply trends instead of the demand and supply curves. He is inclined to think that "by the introduction of the demand and supply trends, Lange's theory can be rid of its static premise.



## 6. CONCLUSION

I have examined fairly minutely the economic theory of planning which Professor Yamada has expounded by adopting seemingly a very neutral attitude, with precautions taken against the practice of forcing ideology on others, and have brought out and reviewed his ideology of the old economic theory which permeates his theory, perhaps unnoticed by himself. I did so because the ideology which runs through his "Economic Theory of Planning," is none other than that of the old economic logic, which is still dominant in our circle of economists and which must be overcome scientifically by all means for the sake of the study of economic planning. (Jan. 1942)